



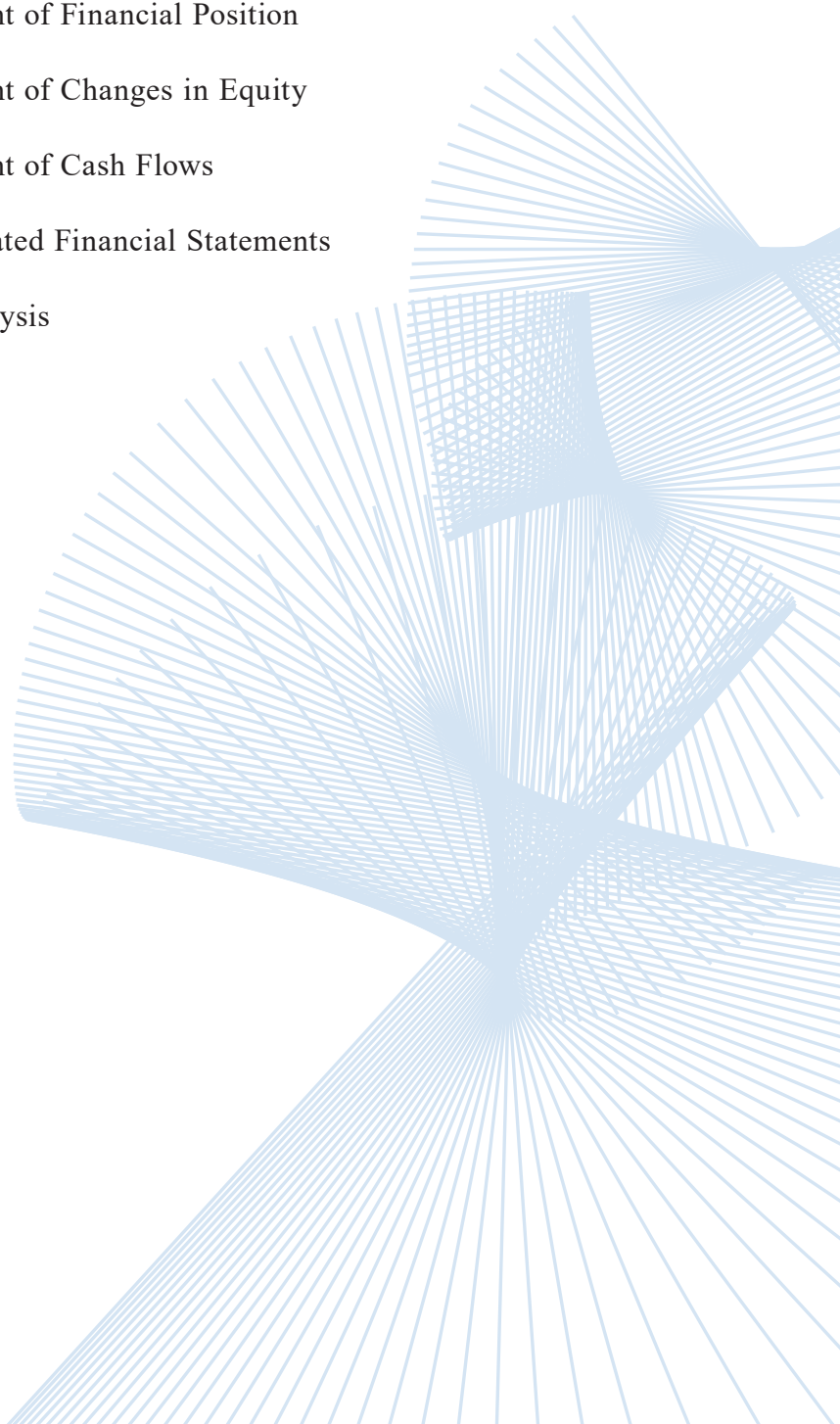
(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

INTERIM REPORT 2023

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Corporate Information

HONORARY CHAIRMAN

Lam Ting Ball, Paul

BOARD OF DIRECTORS

Executive Director and Chairman

Tsui Ho Chuen, Philip (*Managing Director*)

Executive Directors

Li Guangzhong (*Sales Director*)

Mak Chi Wah (*Finance Director*)

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chua Joo Bin

Xia Jun

Meng Jinxia

AUDIT COMMITTEE

Chua Joo Bin (*Chairman*)

Xia Jun

Chong Chi Kwan

REMUNERATION COMMITTEE

Xia Jun (*Chairman*)

Chong Chi Kwan

Chua Joo Bin

NOMINATION COMMITTEE

Xia Jun (*Chairman*)

Tsui Ho Chuen, Philip

Chua Joo Bin

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

27th Floor, One Taikoo Place, 979 King's Road

Quarry Bay, Hong Kong

SHARE REGISTRARS

Hong Kong

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road, Hong Kong

Cayman Islands

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive, PO Box 2681

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL BANKERS

Hong Kong

The Hongkong and Shanghai Banking

Corporation Limited

DBS Bank (Hong Kong) Limited

Nanyang Commercial Bank, Limited

PRC

HSBC Bank (China) Company Limited

Shenzhen Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, CNT Tower, 338 Hennessy Road

Wanchai, Hong Kong

WEBSITE

www.cpmgroup.com.hk

Interim Results

The board (the “Board”) of directors (the “Directors”) of CPM Group Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2023 together with comparative amounts for the corresponding period in 2022. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Board’s audit committee.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000 (Restated)
REVENUE	3	243,887	311,906
Cost of sales		<u>(170,515)</u>	<u>(247,655)</u>
Gross profit		73,372	64,251
Other income and gains, net	3	9,716	5,956
Selling and distribution expenses		(34,882)	(46,924)
Administrative expenses		(45,980)	(58,431)
Other expenses, net		(6,844)	(12,744)
Finance costs	4	<u>(6,391)</u>	<u>(2,348)</u>
LOSS BEFORE TAX	5	(11,009)	(50,240)
Income tax expense	6	<u>(340)</u>	<u>(280)</u>
LOSS FOR THE PERIOD		<u>(11,349)</u>	<u>(50,520)</u>
ATTRIBUTABLE TO:			
Owners of the parent		(11,508)	(50,384)
Non-controlling interest		<u>159</u>	<u>(136)</u>
		<u>(11,349)</u>	<u>(50,520)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	<u>HK (1.15) cents</u>	<u>HK (5.04) cents</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(11,349)	(50,520)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(32,472)	(30,872)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	7,406	–
Income tax effect	(1,851)	–
	5,555	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	(26,917)	(30,872)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(38,266)	(81,392)
ATTRIBUTABLE TO:		
Owners of the parent	(38,288)	(81,107)
Non-controlling interest	22	(285)
	(38,266)	(81,392)

Condensed Consolidated Statement of Financial Position

30 June 2023

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	117,475	151,090
Investment properties	10	292,596	240,941
Right-of-use assets		42,600	81,270
Equity investment designated at fair value through other comprehensive income		300	300
Deposits for purchases of property, plant and equipment		4,119	4,308
Deposits and prepayments		889	500
Deferred tax assets		15,216	14,220
Total non-current assets		473,195	492,629
CURRENT ASSETS			
Inventories		29,065	43,124
Trade and bills receivables	11	297,396	369,378
Prepayments, deposits and other receivables		58,758	57,978
Pledged deposits		40,967	42,202
Cash and cash equivalents		123,794	147,521
Total current assets		549,980	660,203
CURRENT LIABILITIES			
Trade and bills payables	12	217,055	260,778
Other payables and accruals		52,548	76,980
Interest-bearing bank borrowings		212,036	237,257
Lease liabilities		2,978	3,552
Tax payable		8,909	9,387
Total current liabilities		493,526	587,954
NET CURRENT ASSETS		56,454	72,249
TOTAL ASSETS LESS CURRENT LIABILITIES		529,649	564,878

Condensed Consolidated Statement of Financial Position

30 June 2023

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	4,212	5,196
Deferred tax liabilities	38,070	35,621
Deferred income	468	634
Deposit received	2,996	2,482
	<hr/>	<hr/>
Total non-current liabilities	45,746	43,933
	<hr/>	<hr/>
Net assets	483,903	520,945
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	100,000	100,000
Reserves	381,002	418,066
	<hr/>	<hr/>
	481,002	518,066
	<hr/>	<hr/>
Non-controlling interest	2,901	2,879
	<hr/>	<hr/>
Total equity	483,903	520,945
	<hr/> <hr/>	<hr/> <hr/>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Attributable to owners of the parent														Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Capital contribution [#] (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Fair value reserve (non-recycling) (Unaudited) HK\$'000	Leasehold land and building revaluation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Reserve funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interest (Unaudited) HK\$'000	
At 1 January 2023	100,000	94,614	(15,017)	2,630	(28,616)	(500)	164,253	10,485	(16,314)	5,610	29,819	171,102	518,066	2,879	520,945
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(11,508)	(11,508)	159	(11,349)
Other comprehensive income/(loss) for the period:															
Gain on property revaluation, net of tax	-	-	-	-	-	-	5,555	-	-	-	-	-	5,555	-	5,555
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(32,335)	-	-	-	(32,335)	(137)	(32,472)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	5,555	-	(32,335)	-	-	(11,508)	(38,288)	22	(38,266)
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	1,224	-	-	1,224	-	1,224
At 30 June 2023	<u>100,000</u>	<u>94,614[#]</u>	<u>(15,017)[#]</u>	<u>2,630[#]</u>	<u>(28,616)[#]</u>	<u>(500)[#]</u>	<u>169,808[#]</u>	<u>10,485[#]</u>	<u>(48,649)[#]</u>	<u>6,834[#]</u>	<u>29,819[#]</u>	<u>159,594[#]</u>	<u>481,002</u>	<u>2,901</u>	<u>483,903</u>

	Attributable to owners of the parent														Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Capital contribution [#] (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Fair value reserve (non-recycling) (Unaudited) HK\$'000	Leasehold land and building revaluation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Reserve funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interest (Unaudited) HK\$'000	
At 1 January 2022	100,000	94,614	(15,017)	2,630	(28,616)	(500)	32,759	10,485	32,778	-	29,819	270,624	529,576	3,538	533,114
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(50,384)	(50,384)	(136)	(50,520)
Other comprehensive loss for the period:															
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(30,723)	-	-	-	(30,723)	(149)	(30,872)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(30,723)	-	-	(50,384)	(81,107)	(285)	(81,392)
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	4,303	-	-	4,303	-	4,303
At 30 June 2022	<u>100,000</u>	<u>94,614[#]</u>	<u>(15,017)[#]</u>	<u>2,630[#]</u>	<u>(28,616)[#]</u>	<u>(500)[#]</u>	<u>32,759[#]</u>	<u>10,485[#]</u>	<u>2,055[#]</u>	<u>4,303[#]</u>	<u>29,819[#]</u>	<u>220,240[#]</u>	<u>452,772</u>	<u>3,253</u>	<u>456,025</u>

^{**} Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China (the "PRC") is required to be transferred to the PRC reserve funds which are restricted as to use. These PRC entities are not required to effect any further transfer when the amounts of the PRC reserve funds reach 50% of their registered capital. The PRC reserve funds can be used to make good the future losses of these PRC entities or to increase their registered capital.

[#] These reserve accounts comprise the consolidated reserves of HK\$381,002,000 (30 June 2022: HK\$352,772,000) in the unaudited condensed consolidated statement of financial position.

[^] The capital contribution reserve represents equity-settled share option expense related to the Group's business granted by the ultimate holding company, CNT Group Limited, on behalf of the Group.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit/(loss) before working capital changes	5,764	(28,124)
Decrease in inventories	12,948	12,007
Decrease in trade and bills receivables	58,864	24,713
Decrease/(increase) in prepayments, deposits and other receivables	(3,903)	1,112
Decrease in trade and bills payables	(33,851)	(80,711)
Decrease in other payables and accruals	(22,770)	(9,114)
Increase in deposit received	514	–
Exchange realignment	547	(2,814)
	<hr/>	<hr/>
Cash generated from/(used in) operations	18,113	(82,931)
Interest paid	(6,186)	(2,188)
Interest element of lease payments	(224)	(83)
Overseas taxes refunded/(paid)	(69)	216
	<hr/>	<hr/>
Net cash flows from/(used in) operating activities	11,634	(84,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(2,737)	(1,358)
Proceeds from disposal of items of property, plant and equipment	907	309
Interest received	837	1,058
Deposits paid for purchases of property, plant and equipment	–	(16,443)
Decrease/(increase) in pledged time deposits with original maturity of more than three months when acquired, net	(625)	5,691
	<hr/>	<hr/>
Net cash flows used in investing activities	(1,618)	(10,743)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	168,615	206,421
Repayment of bank loans	(193,527)	(189,958)
Principal portion of lease payments	(1,907)	(1,704)
	<hr/>	<hr/>
Net cash flows from/(used in) financing activities	(26,819)	14,759

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,803)	(80,970)
Cash and cash equivalents at beginning of period	147,521	196,094
Effect of foreign exchange rate changes, net	(6,924)	(3,985)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	123,794	111,139
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	114,089	111,139
Non-pledged time deposits with original maturity of less than three months when acquired	9,705	–
	<hr/>	<hr/>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	123,794	111,139
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Financial Statements

1.1 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial statements.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s unaudited condensed consolidated interim financial statements but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group’s policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group has recognised a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases, the amendments did not have any impact to the Group.
- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the paint products segment engages in the manufacture and sale of paint and coating products; and
- (b) the property investment segment invests in industrial properties for their rental income potential.

During the year ended 31 December 2022, the Board had resolved that additional resources would continuously be deployed to the property investment business and accordingly, the property investment business was redesignated by the Board as one of the principal businesses of the Group. Accordingly, the presentation of segment information for the period ended 30 June 2022 has been restated to reflect this change of segment composition.

The chief operating decision-maker regularly reviews the operating results of the operating segments of the Group separately for the purposes of resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2023

Segment revenue

Sales to external customers
Other revenue and gains, net

Reconciliation:

Elimination of intersegment sales

Total

Segment results

Reconciliation:

Elimination of intersegment results
Interest income
Finance costs
Corporate and other unallocated expenses

Loss before tax

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	233,886	10,001	243,887
	4,294	4,585	8,879
	<u>238,180</u>	<u>14,586</u>	<u>252,766</u>
			–
			<u>252,766</u>
	(15,251)	13,324	(1,927)
			–
			837
			(6,391)
			<u>(3,528)</u>
			<u>(11,009)</u>

As at 30 June 2023

Segment assets

Reconciliation:

Elimination of intersegment receivables
Corporate and other unallocated assets

Total assets

Segment liabilities

Reconciliation:

Elimination of intersegment payables
Corporate and other unallocated liabilities

Total liabilities

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	717,788	302,252	1,020,040
			–
			<u>3,135</u>
			<u>1,023,175</u>
	498,564	38,959	537,523
			–
			<u>1,749</u>
			<u>539,272</u>

Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2023

Other segment information

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Depreciation on property, plant and equipment	11,145	–	11,145
Depreciation on right-of-use assets	3,049	–	3,049
Capital expenditure*	2,737	–	2,737*
Fair value gain on investment properties, net	–	(4,585)	(4,585)
Provision for impairment of trade and bills receivables, net	2,160	–	2,160
Provision of inventories to net realisable value, net	425	–	425

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and deposits for purchases of property, plant and equipment.

Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2022	Paint products (Unaudited) HK\$'000 (Restated)	Property investment (Unaudited) HK\$'000 (Restated)	Total (Unaudited) HK\$'000 (Restated)
Segment revenue			
Sales to external customers	310,152	1,754	311,906
Other revenue and gains, net	4,196	702	4,898
	<u>314,348</u>	<u>2,456</u>	<u>316,804</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>–</u>
Total			<u><u>316,804</u></u>
Segment results	(43,744)	1,570	(42,174)
<i>Reconciliation:</i>			
Elimination of intersegment results			–
Interest income			1,058
Finance costs			(2,348)
Corporate and other unallocated expenses			<u>(6,776)</u>
Loss before tax			<u><u>(50,240)</u></u>
As at 31 December 2022			
Segment assets	894,058	246,151	1,140,209
<i>Reconciliation:</i>			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			<u>12,623</u>
Total assets			<u><u>1,152,832</u></u>
Segment liabilities	594,580	35,354	629,934
<i>Reconciliation:</i>			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			<u>1,953</u>
Total liabilities			<u><u>631,887</u></u>

Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2022	Paint products (Unaudited) HK\$'000 (Restated)	Property investment (Unaudited) HK\$'000 (Restated)	Total (Unaudited) HK\$'000 (Restated)
Other segment information			
Depreciation on property, plant and equipment	13,413	–	13,413
Depreciation on right-of-use assets	3,366	–	3,366
Capital expenditure*	17,801	–	17,801*
Fair value gain on investment properties	–	(702)	(702)
Provision for impairment of trade and bills receivables	522	–	522
Provision of inventories to net realisable value, net	<u>299</u>	<u>–</u>	<u>299</u>

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets (land portion only) and deposits for purchases of property, plant and equipment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000 (Restated)
Hong Kong	32,031	36,834
Mainland China	211,856	275,072
	<u>243,887</u>	<u>311,906</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
	Hong Kong	1,365
Mainland China	456,314	476,620
	<u>457,679</u>	<u>477,609</u>

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets, financial instruments.

Information about a major customer

During the six months ended 30 June 2023 and 2022, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

Notes to the Condensed Consolidated Financial Statements

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000 (Restated)
<i>Revenue from contracts with customers</i>		
Sale of paint products	233,886	310,152
<i>Revenue from other sources</i>		
Gross rental income from investment properties	10,001	1,754
	<u>243,887</u>	<u>311,906</u>

Disaggregated revenue information

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Type of paint and coating products sold		
Industrial paint and coating products	79,061	116,149
Architectural paint and coating products	100,603	134,546
General paint and coating and ancillary products	54,222	59,457
	<u>233,886</u>	<u>310,152</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>233,886</u>	<u>310,152</u>

Notes to the Condensed Consolidated Financial Statements

3. REVENUE, OTHER INCOME AND GAINS, NET (continued)

An analysis of other income and gains, net is as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000 (Restated)
Other income and gains, net		
Bank interest income	837	1,058
Fair value gain on investment properties, net	4,585	702
Government grants*	520	1,312
Government subsidies^	2,415	728
Gain on disposal of items of property, plant and equipment, net	60	221
Foreign exchange differences, net	699	1,365
Recognition of deferred income	145	155
Others	455	415
	9,716	5,956

* Government grants have been received from certain government authorities of the PRC in recognition of the Group's efforts in environmental awareness and protection and technological development. There are no unfulfilled conditions or contingencies relating to these grants.

^ During the six months ended 30 June 2023, the PRC government granted subsidies of HK\$2,399,000 for the removal of solvent production lines and solvent storage tanks in the production plant located in Hubei, Mainland China. Furthermore, a subsidy of HK\$16,000 was granted for relocating the main factory entrances within the complex situated in Shanghai, Mainland China. There are no unfulfilled conditions or contingencies relating to these government subsidies.

During the six months ended 30 June 2022, the government subsidies were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There were no unfulfilled conditions or contingencies relating to these government subsidies.

Notes to the Condensed Consolidated Financial Statements

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Interest on bank and other borrowings	6,168	2,265
Interest expense on lease liabilities	223	83
	6,391	2,348

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cost of inventories sold	170,515	247,655
Depreciation of property, plant and equipment	11,145	13,413
Depreciation of right-of-use assets	3,049	3,366
Equity-settled share option expenses	1,224	4,303
Foreign exchange differences, net*	(699)	(1,365)
Fair value gain on investment properties, net*	(4,585)	(702)
Gain on disposal of items of property, plant and equipment, net*	(60)	(221)
Provision for impairment of trade and bills receivables, net*	2,160	522
Provision of inventories to net realisable value, net [®]	425	299
Staff termination cost*	–	6,663
Write-off of items of property, plant and equipment*	36	2

* These balances are included in "Other income and gains, net" for gains and "Other expenses, net" for losses in the unaudited condensed consolidated statement of profit or loss.

[®] The balance is included in "Cost of sales" in the unaudited condensed consolidated statement of profit or loss.

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (six months ended 30 June 2022: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2022: 15%) had been applied during the period.

Notes to the Condensed Consolidated Financial Statements

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$11,508,000 (six months ended 30 June 2022: HK\$50,384,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2022: 1,000,000,000) in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and assumed conversion of all dilutive potential ordinary shares as adjusted to reflect the dilution effect of the share options issued by the Company. For the six months ended 30 June 2023 and 2022, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the impact of the outstanding share options had an anti-dilutive effect on the basic loss per share amounts presented.

8. DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired items of property, plant and equipment at costs of HK\$2,737,000 (six months ended 30 June 2022: HK\$17,020,000).

Items of property, plant and equipment with an aggregate net book value of HK\$847,000 (six months ended 30 June 2022: HK\$88,000) were disposed of by the Group during the six months ended 30 June 2023.

10. INVESTMENT PROPERTIES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Carrying amount at beginning of period/year	240,941	81,703
Fair value gain, net	4,585	593
Transfer from an owner-occupied property	61,243	160,710
Exchange realignment	(14,173)	(2,065)
	292,596	240,941
Carrying amount at end of period/year	292,596	240,941

The Group's investment properties are industrial properties located in Shajing, Zhongshan, Xuzhou and Shanghai, the PRC (31 December 2022: Shajing, Xuzhou and Shanghai, the PRC). The Directors have determined that the investment properties consist of one class of asset, i.e., industrial properties in the PRC, based on the nature, characteristics and risks of the properties. The Group's investment properties were revalued on 30 June 2023 based on the valuations performed by BMI Appraisals Limited and 中山市安平房地產評估有限公司, the independent professional qualified valuers, at HK\$292,596,000. The Group's finance department which reports directly to the senior management selects external valuers to be responsible for the external valuations of the Group's properties based on market knowledge, reputation and independence of the external valuers, and whether professional standards are maintained by the external valuers. Fair values of the Group's investment properties are generally derived by using the income capitalisation method, the market comparison approach and the depreciated replacement cost approach. The Group's finance department has discussions with the external valuers on the valuation assumptions and valuation results when the valuations were performed for interim and annual financial reporting.

The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting capitalisation rates, which are derived from analysis of rental/sales transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by the valuers based on the risk profile of the properties being valued.

Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTIES (continued)

The market comparison approach is based on the price by assuming sale of the property interest in its existing state with reference to comparable sales transactions as available in the relevant market.

The depreciated replacement cost approach is based on an estimate of the new replacement cost of the building and structures less allowance for physical deterioration and all relevant forms of obsolescent and optimisation.

Fair value hierarchy

The following table illustrates how the fair values of the Group's investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Range as at	
				30 June 2023	31 December 2022
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. and per month)	RMB21 to RMB46	RMB21 and RMB47
			Capitalisation rates	5.0% to 6.0%	5.5% to 6.0%
Industrial property in Mainland China	Level 3	Market comparison approach and depreciated replacement cost approach	Market price (per sq.m.)	RMB1,382 to RMB3,026	Nil
			Estimated replacement cost (per sq.m.)	RMB939 to RMB2,508	Nil

During the six months ended 30 June 2023, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2022: Nil).

Under the income capitalisation method, a significant increase/(decrease) in the unit rental rate in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the term yield and reversion yield in isolation would result in a significant decrease/(increase) in the fair value of the investment properties.

Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Under the market comparison approach, fair value is estimated by the direct comparison method on the assumption of the sales of the property interest and by referring to comparable sales transactions as available in the market. The key input was the market price per square metre. A significant increase/(decrease) in the market price in isolation would result in a significant increase/(decrease) in the fair value of the investment property.

Under the depreciated replacement cost approach, fair value is estimated based on estimated replacement cost. A significant increase/(decrease) in the estimated replacement cost in isolation would result a significant increase/(decrease) in the fair value of the investment property.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial properties	
	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Carrying amount at beginning of period/year	240,941	81,703
Fair value gain, net	4,585	593
Transfer from an owner-occupied property	61,243	160,710
Exchange realignment	(14,173)	(2,065)
	<hr/>	<hr/>
Carrying amount at end of period/year	292,596	240,941

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Within three months	100,089	147,698
Over three months and within six months	40,172	72,445
Over six months	157,135	149,235
	<hr/>	<hr/>
	297,396	369,378

Notes to the Condensed Consolidated Financial Statements

12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Within three months	88,656	122,567
Over three months and within six months	50,934	76,699
Over six months	77,465	61,512
	217,055	260,778

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2023, bills payable with an aggregate carrying amount of HK\$112,175,000 (31 December 2022: HK\$134,656,000) were secured by time deposits of HK\$40,104,000 (31 December 2022: HK\$40,397,000).

13. SHARE OPTION SCHEME

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of the Company of HK\$0.10 each were granted to three Directors and five employees of the Group under the share option scheme (the "Scheme") adopted by the Company on 4 June 2020 (the "Adoption Date"). The Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible participants (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member of the Group and any customer of the Group), who made contributions to the Group. Unless terminated by resolution in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on 4 June 2020, after which period no further share options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 27 April 2020.

The equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the date of grant, of which 50% of the share options vested immediately on the date of grant, 20% of the share options vested on 14 June 2023, 10% of the share options shall vest on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK\$0.335 per share and must be exercised within 5 years from the date of grant, and if not so exercised, the share options shall lapse.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued shares of the Company as at the Adoption Date. The maximum number of shares issued and which may fall to be issued upon exercise of the share option granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding share options) and such shares which were subsequently cancelled, to each eligible participant in any 12-month period up to the date of offer shall not exceed 1% of the number of shares in issue as at the date of offer. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders at a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates under the Scheme and any other share option schemes of the Company or any of its subsidiaries are subject to approval by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the share options). In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue on the date of offer and having an aggregate value (based on the closing price of the Company's shares on the date of offer) in excess of HK\$5 million, in the 12-month period up to and including the date of offer, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options must be accepted not later than 21 days from the date of offer and the amount payable by the grantees to the Company on acceptance of the offer for the grant of share option is HK\$1.00. The period during which the share option may be exercised will be determined by the Board in its absolute discretion.

The exercise price of share options is determined by the Board, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer in respect of such share option; (ii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of offer in respect of such share option; and (iii) the nominal value of the Company's share.

Share options do not confer rights on the holders to dividends or to vote in any general meeting of the Company.

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

The summary below sets forth the details of movement of share options granted as at 30 June 2023 pursuant to the Scheme:

	Date of grant	Exercise period (Note)	Exercise price per share HK\$	Number of share options				Outstanding as at 30 June 2023
				Outstanding as at 1 January 2023	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
Executive Directors								
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Non-Executive Director								
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Employees								
	15 June 2022	15 June 2022 to 14 June 2027	0.335	50,000,000	-	-	-	50,000,000
Total				<u>80,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,000,000</u>

Note:

The share options granted to each of the grantees have the vesting period and are/would be exercisable as follows:

- 50% of the share options vested on the date of grant of the share options, i.e. 15 June 2022 and are exercisable from 15 June 2022 to 14 June 2027;
- 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023 to 14 June 2027;
- 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024 to 14 June 2027;
- 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025 to 14 June 2027; and
- 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026 to 14 June 2027.

None of the share options granted under the Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2023 and 2022.

No share options were granted during the six months ended 30 June 2023 (six months ended 30 June 2022: the fair value of the share options granted on 15 June 2022 was HK\$8,417,000). Share option expenses of approximately HK\$1,224,000 was recognised during the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$4,303,000).

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the six months ended 30 June 2022 was estimated as at the date of grant, using a Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the share options were granted. The Model is one of the commonly used models to estimate the fair value of a share option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option. The following table lists the inputs to the Model used:

Dividend yield (%)	1.483
Expected volatility (%)	35.732
Risk-free interest rate (%)	3.172
Contractual life of options (year)	5
Early exercise behaviour (%)	220 and 280 of the exercise price
Exercise price (HK\$ per share)	0.335

No other feature of the share options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 80,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,000,000 additional ordinary shares of the Company and additional share capital of HK\$26,800,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 80,000,000 share options outstanding under the Scheme, which represented 8% of the Company's shares in issue as at that date.

14. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	<u>3,220</u>	<u>1,592</u>

Notes to the Condensed Consolidated Financial Statements

15. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Lease payments paid to the Remaining Group	(i)	1,394	1,420
Pledge fees paid to the Remaining Group	(ii)	767	707
Interest expenses paid to the Remaining Group	(iii)	692	–
		<u>2,853</u>	<u>2,127</u>

- (i) The Group leased certain office premises from the Remaining Group (CNT Group Limited, the ultimate holding company of the Company, and its subsidiaries, but excluding the Group, are collectively referred to as the “Remaining Group”) at rates mutually agreed between the parties.
- (ii) Pledge fees were charged by the Remaining Group for pledging certain properties in Hong Kong as securities for certain banking facilities granted to the Group at mutually agreed fees.
- (iii) During the six months ended 30 June 2023, loans have been granted by the Remaining Group on normal commercial terms, which were not secured by the assets of the Group. The loan agreements were executed on mutually agreed terms. The loans were fully drawn down and subsequently repaid during the period.
- (b) During the six months ended 30 June 2023, the transactions in respect of item (a)(i), (a)(ii) and (a)(iii) (six months ended 30 June 2022: (a)(i) and (a)(ii)) above also constituted connected transactions or continuing connected transactions of the Company as defined under Chapter 14A of the Listing Rules, which are exempted from reporting, annual review and independent shareholders’ approval under Chapter 14A of the Listing Rules.
- (c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Short term employment benefits	4,333	4,615
Post-employment benefits	247	250
Equity-settled share option expenses	306	1,076
Total compensation paid/payable to key management personnel	<u>4,886</u>	<u>5,941</u>

Notes to the Condensed Consolidated Financial Statements

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department which reports directly to the senior management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The audit committee of the Board reviews the results of the fair value measurement of financial instruments periodically for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of the non-current portion of financial assets included in prepayments and deposits has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of the equity investment designated at fair value through other comprehensive income is based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
<i>Assets measured at fair value:</i>				
At 30 June 2023				
Equity investment designated at fair value through other comprehensive income	–	300	–	300
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	Total (Audited) HK\$'000
At 31 December 2022				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

Notes to the Condensed Consolidated Financial Statements

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2023 and 31 December 2022.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (31 December 2022: Nil).

17. COMPARATIVE FIGURES

As further explained in note 2 to the unaudited condensed consolidated interim financial statements, due to the changes in the designation of principal businesses, certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 29 August 2023.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in paint and coating business. It also holds investment properties in Mainland China. The paint and coating business represents the largest business segment of the Group. The products in this business are broadly categorised into (i) industrial paint and coating products; (ii) architectural paint and coating products; and (iii) general paint and coating and ancillary products. Industrial paint and coating products are used in furniture painting, manufacturing and surface finishing for different kinds of materials used by furniture manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall painting, floor coating and decorating of the wall surface of buildings. The architectural paint and coating products of the Group are sold to customers in the construction and maintenance markets for the commercial and residential properties. General paint and coating and ancillary products, such as thinner, enamels and anti-mold agents and solvent agents, are used for both architectural and industrial purposes.

BUSINESS REVIEW

For the six months ended 30 June 2023, the Group recorded a loss attributable to the shareholders of the Company of HK\$11.51 million, representing a reduction of 77.2% in the loss attributable to the shareholders of the Company as compared to the loss of HK\$50.38 million for the six months ended 30 June 2022. The Group recorded a decrease of 24.6% in revenue generated from the sales of paint and coating products, such decrease was partially mitigated by (i) an increase of 6.9 percentage points in gross profit margin; (ii) a substantial increase in the rental income from the investment properties held by the Group; (iii) a significant decrease in the selling and distribution expenses and the administrative expenses; and (iv) the fair value gain on the investment properties held by the Group.

Furthermore, following the ongoing implementation of the effective business revamp measures and initiatives (the "Business Revamp Measures and Initiatives") and excluding the net fair value gain on investment properties and various expenses such as depreciation of property, plant, and equipment, staff termination costs, provision for impairment of trade and bills receivables, depreciation of right-of-use assets, finance costs, share option expenses, and income tax, the Group achieved an adjusted profit of approximately HK\$8.38 million for the six months ended 30 June 2023, as compared to an adjusted loss of approximately HK\$20.33 million for the same period in 2022. This marked improvement represented the dedicated efforts made by the Group to drive the efficiency and sustainability through Business Revamp Measures and Initiatives, as evidenced by a significant turnaround from the reported loss of approximately HK\$11.35 million for the six months ended 30 June 2023, as compared to a loss of approximately HK\$50.52 million for the same period in 2022.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Paint and Coating Business

During the first half of 2023, most major industries in Mainland China, except the real estate industry, experienced a rebound in the value of the gross domestic product (“GDP”) of Mainland China as compared to the first half of 2022. For example, the financial sector, the wholesale and retail trade sector, and the transport, postal, and warehousing sector contributed to 13.3%, 11.8% and 11.5% of the overall increase in the GDP of Mainland China, respectively. The real estate sector only experienced a modest growth. According to the National Bureau of Statistics of China (the “NBSC”), the growth rate of the GDP of Mainland China increased modestly from 2.5% to 5.5% during the first half of 2023, as compared to the first half of 2022. Such growth rate was primarily due to the economic rebound in the first half of 2023 and the removal of the stringent lockdown measures implemented in certain regions in Mainland China in response to the COVID-19 pandemic since the second half of 2022. According to the Hong Kong Census and Statistics Department, the GDP of Hong Kong increased by 6.8% in the first quarter of 2023, but such growth was expected to slow down to 2.7% in the second quarter of 2023, as compared to the second quarter of 2022. Facing such a dynamic economic environment, revenue generated from the sales of paint and coating products of the Group for the six months ended 30 June 2023 decreased by 24.6%, as compared to the six months ended 30 June 2022, for the reasons set forth below.

Geographically, during the first half of 2023, Eastern China, Central China and Southern China consistently accounted for two-thirds of the GDP of Mainland China. As compared to the first half of 2022, the GDP of Eastern China recorded a modest increase of 2.1%, whereas the GDP of Central China and Southern China recorded a very slightly increase of 0.6% and 0.7%, respectively, in the first half of 2023. The marginal growth rate of the real estate industry was due to a combined impact of (i) the increase in the completion area of real estate projects in the provinces and cities of Central China, Eastern China and Southern China which was in a range of -11% to 4%, -4% to 58% and 13% to 22%, respectively, and (ii) the decrease in the newly developed construction area in the provinces and cities of Central China, Eastern China and Southern China which was in a range of -25% to -41%, -1% to -37%, and -5% to -40%, respectively, as compared to the first half of 2022. As a result of the sluggish real property market in Mainland China, the Group recorded a significant decrease in the sales in Eastern China, Central China and Southern China for the first half of 2023 ranging from -25% to 79%, -22% to 66%, and 17% to 44%, respectively, as compared to the first half of 2022. The Group recorded a reduction of HK\$30.71 million in the sales to construction and renovation contractors during the six months ended 30 June 2023, representing a 29.5% decrease as compared to the six months ended 30 June 2022.

Retail sales of the construction and decoration materials in Mainland China recorded a decrease of 6.7% during the first half of 2023, which was decreased slightly as compared to the same period of 2022, despite the 7.7% growth in the construction sector in Mainland China which was primary attributable to an increase in the overall investment in fixed assets including building sites, construction, or installation projects in Mainland China during the first half of 2023. Such decrease may be due to the 6.7% decrease in the cumulative construction area of ongoing projects during the first half of 2023 as compared to the decrease of 2.8% during the first half of 2022.

Although the wholesale and the retail trade sectors in Mainland China recorded a 6.6% surge during the first half of 2023, the ex-factory price of industrial producer recorded a decrease ranging from 1.6% to 6.8%, whereas the purchasing price of industrial producer fluctuated in a range between -6.5% and 0.1% over the first half of 2023 as compared to the same period of 2022. Furthermore, the industrial capacity utilisation rate decreased from 75.1% for the first half of 2022 to 74.5% for the first half of 2023. As a result, industrial producers in Mainland China faced the decreases in profitability and sales revenue during the six months ended 30 June 2023 as compared to the same period of 2022. Amid the challenging market situations, the Group recorded a decrease of 17.1% in the sales to wholesale and retail distributors in Mainland China. However, the Group managed to improve its gross profit margin and reduced the net loss for the six months ended 30 June 2023, as compared to the same period last year, through the implementation of the Business Revamp Measures and Initiatives.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Paint and Coating Business (continued)

In addition, although the China customs authorities reported that on the whole there was a 3.7% increase in export of goods in Mainland China for the first half of 2023, the export of goods (other than the mechanical and electrical products) decreased during the same period of 2023. Such decrease adversely affected the sales to industrial manufacturers in Mainland China. As a result, the Group experienced a decrease of 31.5% or HK\$25.99 million in the sales to industrial manufacturers for the six months ended 30 June 2023 as compared to the six months ended 30 June 2022.

For the real estate market in Hong Kong, the number of sale and purchase agreements for residential and non-residential premises increased by 6.1% from 32,828 units to 34,822 units in the first half of 2023, as compared to a decrease of 34.8% in the first half of 2022. During the six months ended 30 June 2023, the Group recorded a reduction of HK\$4.76 million in the sales in Hong Kong, representing a decrease of 12.9% in the sales in Hong Kong as compared to the six months ended 30 June 2022. This was primarily attributed to the decision of the Group on tightening of credit control measures associated with shorter payment terms provided to the customers.

Overall, the sales to customers for the six months ended 30 June 2023 decreased by 24.6% as compared to the same period of 2022. This was attributable to a 27.7% decrease in the sales to customers of construction and renovation contractors for property and infrastructure projects, a 31.5% decrease in the sales to customers of industrial manufacturers and a 17.0% decrease in the sales to wholesale distributors and retail distributors.

REVIEW OF OPERATIONS

Revenue

During the six months ended 30 June 2023, the total revenue of the Group amounted to HK\$243.89 million, which included revenue from the sales of HK\$233.89 million and rental income from investment properties of HK\$10.0 million. This amount represented a decrease of 21.8% as compared to the total revenue of the Group of HK\$311.91 million for the six months ended 30 June 2022, of which the revenue from the sales amounted to HK\$310.15 million and the rental income from investment properties amounted to HK\$1.76 million.

PAINT AND COATING PRODUCTS

Segmental results

For the six months ended 30 June 2023, the segment recorded a loss of HK\$15.25 million, compared to a loss of HK\$43.74 million for the six months ended 30 June 2022. Such decrease was primarily attributed to the following factors:

Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Revenue

During the six months ended 30 June 2023, the Group's revenue decreased to HK\$233.89 million, as compared to HK\$310.15 million for the six months ended 30 June 2022. The table below sets forth an analysis of the revenue of the Group for principal products during the six months ended 30 June 2023 and 2022:

	Six months ended 30 June				
	2023		2022		% of net change
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	79,061	33.8	116,149	37.4	-31.9
Architectural paint and coating products	100,603	43.0	134,546	43.4	-25.2
General paint and coating and ancillary products ⁽¹⁾	54,222	23.2	59,457	19.2	-8.8
	233,886	100.0	310,152	100.0	-24.6

⁽¹⁾ General paint and coating and ancillary products include thinner, enamel, solvent agent, anti-mold agent, colouring agent and other ancillary products for paint and coating purposes.

Significant decrease in the sales to the construction and renovation contractors for property and infrastructure projects in Mainland China

For the six months ended 30 June 2023, the sales to the construction and renovation contractors for property and infrastructure projects in Mainland China amounted to HK\$73.48 million, represented a decrease of 29.5% as compared to the amount of HK\$104.19 million recorded during the six months ended 30 June 2022. According to the information released by the NBSC on the real estate industry in Mainland China in the first half of 2023, there were a 6.7% decrease in the cumulative construction area of construction-in-progress and a 24.9% decrease in the newly started construction area of real estate projects, as compared to the first half of 2022. The significant decrease in the sales was primarily attributed to the unfavourable real estate market in Mainland China and the tightening of the credit control policy adopted by the Group in response to the prevailing market conditions. During the six months ended 30 June 2023, there was a significant variation in the pre-sale area among the prominent real estate developers in Mainland China, ranging from -29.9% to 71.8%. The sluggish real estate market in Mainland China, different geographical locations of the development projects and diverse completion timelines have resulted in the variation in the pre-sale area among the prominent real estate developers in Mainland China.

Significant decrease in the sales to the industrial manufacturers in Mainland China

For the six months ended 30 June 2023, the sales to the industrial manufacturers in Mainland China decreased by 31.5% or HK\$25.99 million as compared to the same period of 2022. This was primary due to a decrease in demand from customers operating in sectors such as metal products, industrial machinery and plant, plastic toys, and other sectors. According to the information from the NBSC, the China industrial capacity utilisation rate in manufacturing sector decreased by 1.0% during the first half of 2023, as compared to a decrease of 2.5% during the first half of 2022. Furthermore, there was a decrease of 56.5%, 18.0% and 0.7% in the production volume of industrial products, specifically metal containers, excavators and excavating shovels, and plastic products, respectively, during the six months ended 30 June 2023, as compared to the six months ended 30 June 2022.

Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Revenue (continued)

Significant decrease in the sales to the wholesale and retail distributors in Mainland China

For the six months ended 30 June 2023, the sales to the wholesale and retail distributors in Mainland China decreased by 17.1% or HK\$14.81 million as compared to the six months ended 30 June 2022. This was primarily due to the intense competition prevalent in the paint and coating industry in Mainland China and the implementation of the Business Revamp Measures and Initiatives which aimed at enhancing the gross profit margin of the Group.

Decrease in the sales to the wholesale and retail distributors in Hong Kong

For the six months ended 30 June 2023, the sales to the wholesale and retail distributors in Hong Kong decreased by 16.7% or HK\$5.42 million as compared to the six months ended 30 June 2022. This was primarily due to the tightening of the credit control policy adopted by the Group in response to the prevailing market conditions.

Geographical distribution of revenue

The revenue of the Group generated from the sales in Mainland China and Hong Kong accounted for 86.3% and 13.7%, respectively, for the six months ended 30 June 2023, as compared to 88.1% and 11.9%, respectively, for the six months ended 30 June 2022. Most of the revenue of the Group was generated from Southern China, Central China and Eastern China. Revenue generated from these regions, in aggregate, accounted for 79.9% of the sales of the Group for the six months ended 30 June 2023, as compared to 81.5% for the six months ended 30 June 2022.

Significant decrease in the sales to construction and renovation contractors for property and infrastructure projects in Central China, Southern China and Eastern China

For the six months ended 30 June 2023, the revenue of the Group generated from the sales to construction and renovation contractors for property and infrastructure projects in Central China, Southern China and Eastern China decreased by 43.3% to HK\$15.34 million, 22.1% to HK\$37.14 million and 25.9% to HK\$13.67 million, respectively, as compared to HK\$27.06 million, HK\$47.68 million and HK\$18.44 million, respectively, for the six months ended 30 June 2022. This represented around 88.0% of the total decrease incurred in the sales to the construction and renovation contractors for property and infrastructure projects in Mainland China. Such significant decrease was primarily due to the sluggish real property market in Mainland China. According to the information of the NBSC on the real estate sector in Mainland China, the newly started construction area of real estate projects in Central China, Southern China and Eastern China in the first half of 2023 significantly decreased by 35%, 28% and 23%, respectively, as compared to the first half of 2022.

Significant decrease in the sales to the industrial manufacturers in Southern China

During the six months ended 30 June 2023, the revenue of the Group generated from the sales to the industrial manufacturers in Southern China decreased by 30.3%, as compared to HK\$58.88 million for the six months ended 30 June 2022, represented approximately 68.8% of the total decrease in the sales to the industrial manufacturers in Mainland China.

Significant decrease in the sales to the wholesale and retail distributors in Eastern China and Southern China

For the six months ended 30 June 2023, the revenue of the Group generated from the sales to the wholesale and retail distributors in Eastern China and Southern China decreased by 44.1% to HK\$11.48 million and 6.2% to HK\$51.86 million, respectively, as compared to HK\$20.52 million and HK\$55.28 million, respectively, for the six months ended 30 June 2022, represented around 84.2% of the total decrease in the sales to the wholesale and retail distributors in Mainland China.

Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Cost of Sales

Cost of raw materials

Raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a substantial portion of the total cost of raw materials. Generally speaking, prices of such raw materials are directly or indirectly affected by crude oil prices. However, despite the decrease of 25% in crude oil prices per barrel, ranging from US\$70 to US\$80 per barrel during the six months ended 30 June 2023, as compared to a range of US\$83 to US\$115 per barrel for the six months ended 30 June 2022, the raw material prices did not correspond proportionately to the crude oil prices during the six months ended 30 June 2023. The percentage of raw material costs to the sales decreased by 8.0%, resulting in a decrease to 63.2% compared to 68.7% for the six months ended 30 June 2022.

Direct and indirect labour cost

For the six months ended 30 June 2023, direct and indirect labour costs decreased by 34.7%, resulting in a total of HK\$12.71 million. This was primarily due to the implementation of cost-saving measures by the Group through the integration of production facilities in Southern China and Central China since 2022 and the decrease of 24.6% in sales.

Depreciation and production overhead

Depreciation and production overhead costs decreased by 34.2% to HK\$10.03 million for the six months ended 30 June 2023, as compared to the six months ended 30 June 2022. The reduction in production overhead costs decreased by 52.9%, which was primarily due to the decrease in sales and the reduction in other consumption. In addition, the depreciation for the six months ended 30 June 2023 decreased by 17.7%, mainly due to the implementation of cost-saving measures by the Group through the integration of production facilities in Southern China and Central China since 2022.

Gross Profit Margin and Gross Profit of the Group's Products

As mentioned above, the paint and coating industry experienced a reduction in raw material costs due to the decrease in crude oil prices during the six months ended 30 June 2023. The Group achieved a substantial increase of 34.2% in gross profit margin for sales, reaching 27.1% for the six months ended 30 June 2023. This represented a significant improvement as compared to that of 20.2% in the corresponding period in 2022. Despite the 24.6% decrease in the sales, the gross profit generated from the sales demonstrated a modest 1.4% growth, amounting to HK\$0.87 million, as compared to the six months ended 30 June 2022. This was due to the implementation of the Business Revamp Measures and Initiatives by the Group which was designed to enhance the gross profit margin and to improve operational efficiency, encompassing manufacturing operations and inventory turnover speed of the Group.

Other Income and Gains, Net

The other income and gains, net for the six months ended 30 June 2023 amounted to HK\$5.13 million, represented a decrease of 2.3% as compared to HK\$5.25 million for the six months ended 30 June 2022. Such decrease was primarily due to (i) an increase in government subsidies of HK\$1.69 million; (ii) a decrease in government grants of HK\$0.79 million; (iii) a decrease in net foreign exchange difference amounting to HK\$0.67 million; and (iv) a decrease in bank interest income of HK\$0.22 million for the six months ended 30 June 2023.

Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses decreased by 25.7% amounting to HK\$34.88 million for the six months ended 30 June 2023, as compared to HK\$46.92 million for the six months ended 30 June 2022. Such decrease was attributed to (i) a reduction of 32.0% in the transportation costs as a result of the decrease in the sales; (ii) a decrease of 65.6% in the advertising and promotion expenses; and (iii) a decrease of 60.4% in the entertainment expenses; and (iv) cost reductions on the expenses in relation to the selling and distribution of the Group for the six months ended 30 June 2023.

Administrative expenses decreased by 17.8% to HK\$42.08 million for the six months ended 30 June 2023, as compared to the expenses of HK\$51.15 million for the six months ended 30 June 2022. Such decrease was primarily due to the implementation of cost-saving measures by the Group through the integration of production facilities in Mainland China since 2022 and reduction of administrative expenses such as a reduction of HK\$3.41 million in staff costs during the six months ended 30 June 2023.

Other Expenses, Net

For the six months ended 30 June 2023, the net amount of other expenses decreased by 51.8%, reaching HK\$5.96 million, as compared to the expenses of HK\$12.37 million for the six months ended 30 June 2022. Such decrease was primarily due to (a) the absence of staff termination costs of HK\$6.66 million incurred during the six months ended 30 June 2022 as a result of the implementation of the integration of production facilities in Mainland China by the Group in 2022; (b) a decrease of HK\$0.83 million in local taxes, levies, and stamp duties as a result of a decrease in sales; and (c) an increase of HK\$1.64 million in the provision for the impairment of trade and bill receivables, driven by the net further provision for impairment for (i) the increased gross amount of bills receivable of HK\$15.60 million; (ii) the increased amount of the credited impaired trade receivable of HK\$1.23 million; and (iii) the decreased gross amount of trade receivable (excluding the amount of the credited impaired trade receivable) of HK\$91.68 million.

PROPERTY INVESTMENT

For the six months ended 30 June 2023, the Group recorded a rental income of HK\$10.0 million from investment properties, as compared to HK\$1.75 million for the six months ended 30 June 2022. The Group recorded a segment profit of HK\$13.32 million for the six months ended 30 June 2023, as compared to a profit of HK\$1.57 million for the six months ended 30 June 2022. Such increase was attributable to (i) an additional HK\$8.57 million rental income from the leasing of the previous production building in Shajing to independent third parties in the last quarter of 2022; and (ii) a net fair value gain on the investment properties of HK\$4.59 million for the six months ended 30 June 2023, as compared to HK\$0.70 million for the six months ended 30 June 2022.

During the six months ended 30 June 2023, the Group entered into a lease agreement for leasing part of the production plant in Zhongshan (the "Zhongshan Production Plant"), with an independent third-party for a term of nine years. The Group strategically transferred the Zhongshan Production Plant to one of its investment properties. This enabled the Group to optimised its asset allocation and enhanced operating cash flow. As at 30 June 2023, the value of the investment properties of the Group significantly increased to HK\$292.60 million, which represents a rise from HK\$240.94 million as at 31 December 2022. These investment properties accounted for 28.6% of the total assets of the Group as at 30 June 2023, as compared to 20.9% as at 31 December 2022. This demonstrated the dedication of the Group to optimising the value through strategic asset management. The Group adopted a prudent and targeted approach to the management of its investment portfolio in 2023, which was in line with its overarching business strategy.

Management Discussion and Analysis

PROPERTY INVESTMENT (continued)

As at 30 June 2023, the investment property portfolio of the Group comprised of 4 properties with a total land area of 146,343.9 square meters (“sq.m.”) and a total gross floor area of 57,027.2 sq.m., as compared to 3 properties with a total land area of 126,472.7 sq.m. and a total gross floor area of 46,612.4 sq.m. as at 31 December 2022. The investment properties are industrial properties located in Mainland China, which generate stable recurring income and cash flows for long-term strategic and investment purposes.

The business model of the Group aims to strike a balance between short-term capital needs and long-term financial stability. As such, the Group strategically relocated the production plants which allow the Group to reclassify those properties as part of the investment properties in order to generate consistent rental income and capital appreciation. Furthermore, the Group may divest certain properties to fund its business operations and expansion strategies. This will enable the Group to finance its operations through rental income and generate additional capital through property sales, thereby bolstering its overall financial standing. Additionally, the Group can potentially benefit from long-term capital appreciation on its investment properties by leveraging prime locations to maximise returns.

FINANCIAL REVIEW

Liquidity and Indebtedness

The business operation of the Group is generally financed by a combination of internal and external financial resources available to the Group. The total cash and cash equivalents amounted to approximately HK\$123.79 million as at 30 June 2023, as compared to approximately HK\$147.52 million as at 31 December 2022. Such decrease was mainly due to the repayment of bank loans and the depreciation of Renminbi. The total cash and bank balances include pledged deposits, which amounted to approximately HK\$164.76 million as at 30 June 2023, as compared to approximately HK\$189.72 million as at 31 December 2022. Bank borrowings amounted to approximately HK\$212.04 million as at 30 June 2023, as compared to approximately HK\$237.26 million as at 31 December 2022. The bank borrowings of the Group mainly bear interest at floating rates. As at 30 June 2023, the total bank borrowings of the Group amounted to approximately HK\$212.04 million (100.0%), as compared to approximately HK\$237.26 million (100.0%) as at 31 December 2022, and were payable within one year or on demand.

The cash and bank balances of the Group were mainly denominated in Hong Kong dollars and Renminbi, whereas the bank borrowings of the Group were all denominated in Hong Kong dollars and Renminbi. The results of the Group can be affected by the appreciation or depreciation between Hong Kong dollars and Renminbi. The Group currently does not adopt any hedging measures, but it will monitor its foreign exchange exposure and consider hedging its foreign currency exposure should the need arises.

The gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders’ funds, was 44.1% as at 30 June 2023 as compared to 45.8% as at 31 December 2022.

The liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.11 times as at 30 June 2023 as compared to 1.12 times as at 31 December 2022.

For the six months ended 30 June 2023, the inventory turnover days¹ remained consistent at 31 days, which was the same as the figure recorded for the year ended 31 December 2022. The trade and bills receivables turnover days² increased to 230 days for the six months ended 30 June 2023 as compared to 211 days for the year ended 31 December 2022. The extended trade receivables turnover days for the six months ended 30 June 2023 was primarily attributable to the deferral of certain bills receivables and an increase in bills receivable for settling trade receivables that have not yet reached their due date.

¹ The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 181 days (31 December 2022: 365 days).

² The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 181 days (31 December 2022: 365 days).

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2023 was HK\$481.00 million as compared to HK\$518.07 million as at 31 December 2022. Net asset value per share as at 30 June 2023 was HK\$0.48, as compared to HK\$0.52 as at 31 December 2022. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As at 30 June 2023, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$212.04 million, as compared to HK\$220.34 million as at 31 December 2022.

In addition, the Group entered into financial guarantee contracts on performance bonds issued by a bank for the quality of the paint and coating products under supply contracts. The performance bonds were secured by the pledged deposits of HK\$0.86 million as at 30 June 2023 as compared to HK\$1.80 million as at 31 December 2022.

Pledge of Assets

As at 30 June 2023, certain property, plant and equipment, investment properties, right-of-use assets and cash deposits with an aggregate net book value of HK\$203.28 million, as compared to HK\$207.24 million as at 31 December 2022, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. In addition, as at 30 June 2023 and 31 December 2022, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

STAFF

As at 30 June 2023, the Group employed a total of 528 employees, and a 21.5% decrease from 673 employees as at 30 June 2022. The staff costs for the six months ended 30 June 2023 amounted to approximately HK\$52.02 million, which included equity-settled share-based payments of HK\$0.76 million and excluded Directors' emoluments. This represents a 21.5% decrease from the staff costs of HK\$66.24 million for the six months ended 30 June 2022, which also included equity-settled share-based payments of HK\$2.69 million.

The Group offers comprehensive and competitive staff remuneration and benefits that are based on individual performance. Trainings are provided to employees of the Group depending on their departments and the scope of their responsibilities. The human resources department would also arrange for employees to attend trainings, especially regarding workplace health and safety.

Management Discussion and Analysis

BUSINESS PLANS AND OUTLOOK

Looking ahead to the second half of 2023, the operating environment for the Group remains uncertain. For the past seven months, there has been a decline in the amount of the total investments in (i) the real estate sector by property developers, and (ii) property and plant equipment by non-government organisations (such as private companies or individuals) in Mainland China. In addition, the debt crisis of a leading property developer in Mainland China recently could delay the prospect and recovery of both property market and the boarder Mainland China economy. The Group will monitor the pace of the economic recovery and assess the implications of any potential government stimulus measures to the customers of paint and coating industry in Mainland China. Furthermore, the global economy is affected by uncertainties such as elevated cost of capital and funds. This may affect the valuation of the investment property portfolios and place pressure on the finance costs of the Group. In response, the Group has taken measures to reduce short-term bank borrowings by 10.6% to HK\$212.04 million as at 30 June 2023, compared to HK\$237.26 million as at 31 December 2022. This improvement has been achieved through the enhancement of the profitability, implementation of cost-saving measures, and optimisation of working capital of the Group. Significantly, this signifies a robust step in the right direction towards bolstering the financial position, enhancing financial performance, and improving operating cash flows of the Group. The Group will continue to explore various alternative possibilities to further strengthen the financial position, improve financial performance, enhance operating cash flows, and augment the net current liquidity of the Group.

Against this backdrop, the Group perseveres in optimising the Business Revamp Measures and Initiatives. The objectives are twofold: (i) to enrich the product portfolio and ensure competitiveness; and (ii) to enhance operational efficiency and achieve cost reductions. The Group will continue to adopt a prudent approach to risk management and remain cautious to its business status.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the period under review. The Board has not yet authorised any plan for other material investments or additions of capital assets.

Other Information

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Name	Capacity	Number of shares				Number of underlying shares (Note)	Total	Percentage of the total number of shares in issue
		Personal interests	Family interests	Corporate interests	Other interests			
Tsui Ho Chuen, Philip	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Li Guangzhong	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Chong Chi Kwan	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%

Note: This represented the aggregate number of share options granted to the Directors by the Company (being regarded as unlisted physically settled equity derivatives) under the Scheme. Further details of the share options are set out in the section headed "Share Options" below.

Save as disclosed above, as at 30 June 2023, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

Other Information

SHARE OPTIONS

Details of the movements in the share options granted by the Company under the Scheme during the review period are as follows:

Name	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				Outstanding as at 30 June 2023
				Outstanding as at 1 January 2023	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
Executive Director								
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Executive Director								
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Non-executive Director								
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Employees	15 June 2022	15 June 2022 to 14 June 2027	0.335	50,000,000	-	-	-	50,000,000
				<u>80,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,000,000</u>

Notes:

- (1) The share options granted have the vesting period and are/would be exercisable as follows:
 - (a) 50% of the share options vested on and are exercisable from the date of grant of the share options, i.e. 15 June 2022;
 - (b) 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023;
 - (c) 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024;
 - (d) 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025; and
 - (e) the remaining 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026.
- (2) The closing price of the shares of the Company on 14 June 2022, being the date immediately before the date on which the above share options were granted under the Scheme, was HK\$0.335.
- (3) The number of share options available for grant under the Scheme as at 1 January 2023 and 30 June 2023 were 20,000,000 respectively.

Other Information

SHARE OPTIONS (continued)

Notes: (continued)

- (4) There was no service provider sublimit set under the Scheme.
- (5) During the six months ended 30 June 2023, no share options were granted under the Scheme. The number of shares of the Company that may be issued in respect of share options granted under the Scheme during the six months ended 30 June 2022 divided by the weight average number of shares of the Company in issue for the six months ended 30 June 2022 was 8%.
- (6) Details of the value of the share options granted under the Scheme are set out in note 13 to the financial statements.

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the review period.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2023, the register maintained by the Company under Section 336 of the SFO showed that the following persons had interests in the shares and underlying shares of the Company:

Name	Note	Capacity	Number of shares	Percentage of issued share capital
CNT Enterprises Limited	1	Beneficial owner	750,000,000	75.00%
CNT Group Limited	1	Interest of controlled corporation	750,000,000	75.00%

Note:

- (1) The reference to the 750,000,000 shares relate to the same block of 750,000,000 shares beneficially interested by CNT Enterprises Limited.

CNT Enterprises Limited was a wholly-owned subsidiary of CNT Group Limited. CNT Group Limited was deemed under the SFO to be interested in these 750,000,000 shares which were owned by CNT Enterprises Limited.

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the shares or underlying shares of the Company as at 30 June 2023 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2023, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the “CG Code”) except for the following deviation:

The code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Since 1 April 2023, Mr. Tsui Ho Chuen, Philip has been taking the dual roles of the chairman of the Board and the managing director of the Company. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Tsui Ho Chuen, Philip, the Board is of the opinion that it is appropriate at the present stage for Mr. Tsui Ho Chuen, Philip to hold both positions as the chairman of the Board and the managing director of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company, and this structure can ensure the Company has consistent leadership. In addition, under the supervision by the Board which consists of three executive Directors, one non-executive Director and three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented. Also, as all major decisions are made in consultation with and approved by the members of the Board, the Board believes that this arrangement will not have negative influence on the balance of power and authorisation between the Board and the management of the Company.

The Board will regularly review the effectiveness of this arrangement to ensure that it is appropriate to the circumstances of the Company. The Board will review and consider splitting the roles of the chairman of the Board and the managing director of the Company at a time when the Group can identify a suitable candidate with capable leadership, knowledge and relevant skills and experience for the position. Owing to the business nature and scope of the Group as a whole, such appropriate candidate shall have profound understanding and experience on the business of the Group and therefore there is no definite timetable for such appointment.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of the Directors are as follows:

- (1) Mr. Lam Ting Ball, Paul resigned as the chairman of the Board and a non-executive Director due to his retirement and has been appointed as the honorary chairman of the Company with effect from 1 April 2023. He is neither a director nor an officer of the Company and he does not have any management role in the Company.
- (2) Mr. Tsui Ho Chuen, Philip has been appointed as the chairman of the Board with effect from 1 April 2023.
- (3) The service contract of each of Mr. Tsui Ho Chuen, Philip and Mr. Li Guangzhong, as an executive Director, has been renewed for a term of three years commencing from 9 June 2023.
- (4) The letter of appointment of Mr. Chong Chi Kwan, as a non-executive Director, has been renewed for a term of three years commencing from 9 June 2023.
- (5) The letter of appointment of each of Mr. Chua Joo Bin and Mr. Xia Jun, as an independent non-executive Director, has been renewed for a term of three years commencing from 9 June 2023.

Other Information

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2023.

On behalf of the Board

CPM Group Limited

Tsui Ho Chuen, Philip

Chairman and Managing Director

Hong Kong, 29 August 2023